

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Year Ended December 31, 2004



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**FREEBORN COUNTY
ALBERT LEA MINNESOTA**

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ALBERT LEA MINNESOTA**

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ALBERT LEA MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason*	January 2005
District 2	Daniel Belshan	January 2007
District 3	James Nelson	January 2005
District 4	David Mullenbach	January 2007
District 5	Mark Behrends	January 2005
County Officers		
Elected		
Attorney	Craig Nelson	January 2007
Auditor/Treasurer	Dennis A. Distad	January 2007
District Judge	John Chesterman	January 2005
District Judge	James Broberg	January 2005
Recorder	Kelly Callahan	January 2007
Registrar of Titles	Kelly Callahan	January 2007
Sheriff	Mark Harig	January 2007
Appointed		
Administrator	Ronald Gabrielsen	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite
Human Services		
Board		
Chair	David Mullenbach	January 2007
Vice Chair	Mark Behrends	January 2007
Member	Glen Mathiason	January 2005
Member	James Nelson	January 2005
Member	Daniel Belshan	January 2007
Appointed		
Director	Darryl Meyer	Indefinite
Accounting Officer	David Buhs	Indefinite

*Chair

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Freeborn County

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Freeborn County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Shell Rock River Watershed District or the General Administration Fund of the Turtle Creek Watershed District, discretely presented component units, as of and for the year ended December 31, 2004, which represent 22.3 percent and 28.6 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Shell Rock River Watershed District or the General Administration Fund of the Turtle Creek Watershed District, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The General Administration Fund of the Turtle Creek Watershed District was not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Freeborn County as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.A. to the financial statements, Freeborn County now includes the discretely presented component units--Shell Rock River Watershed District and Turtle Creek Watershed District. Also, as discussed in Note 1.E., governmental activities and Internal Service Fund net assets were restated to correct for the incorrect capitalization of construction period interest.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Freeborn County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Freeborn County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2005, on our consideration of Freeborn County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)**

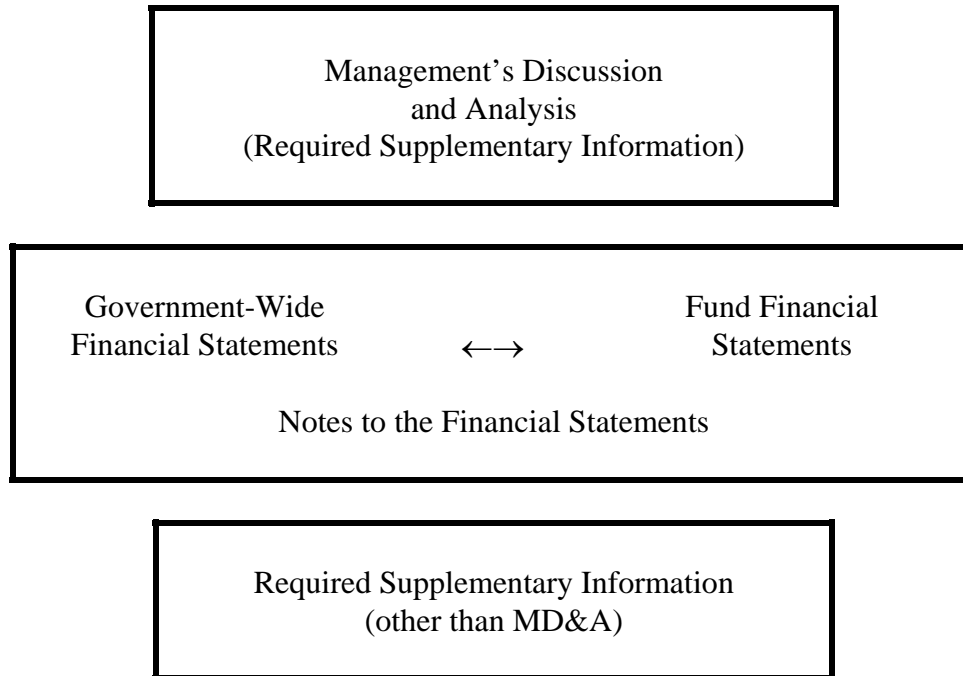
The Freeborn County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$61,641,002, of which \$49,603,021 is invested in capital assets, net of related debt, and \$2,685,869 is restricted to specific purposes.
- Freeborn County's net assets increased by \$262,203 for the year ended December 31, 2004.
- The net cost of governmental activities was \$13,602,309 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$13,864,512.
- Governmental funds' fund balances decreased by \$2,457,946. Most of the decrease was due to the substantial completion of the new law enforcement facility.
- During the year, Freeborn County issued no new bonds.
- The Turtle Creek Watershed District was previously included in the governmental activities column. For 2004, it was reclassified as a discretely presented component unit along with the Shell Rock River Watershed District, which was added this year. The reclassification and new addition accounts for most of the restating of 2003 numbers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Freeborn County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

Our analysis of the County as a whole begins on Exhibit 1. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's

net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, the County reports its governmental activities and discretely presented component units.

Governmental activities reported here include the County's basic services of general government, public safety, highways and streets, human services, health, environmental services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities. The discretely presented component units are legally separate entities that are reported as part of the County because the County is financially accountable for them.

Fund Financial Statements

Our analysis of the County's major funds begins on Exhibit 3. These fund financial statements provide detailed information about the significant funds, not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of the County's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation in a statement following each governmental fund financial statement.
- Proprietary funds--When the County charges customers for the services it provides, whether to outside customers or to other units of the County, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. We use internal service funds to report activities that provide services for the County's other programs and activities, such as the building rental.

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries, based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 10 and 11. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's combined net assets increased from \$61,378,799 to \$61,641,002. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

TABLE 1
Net Assets
(in Millions)

	Governmental Activities	
	2004	2003 (Restated)
Assets		
Current and other assets	\$ 21.7	\$ 34.8
Capital assets	73.8	61.3
Total Assets	<u>\$ 95.5</u>	<u>\$ 96.1</u>
Liabilities		
Long-term debt outstanding	\$ 29.6	\$ 30.5
Other liabilities	4.3	4.2
Total Liabilities	<u>\$ 33.9</u>	<u>\$ 34.7</u>
Net Assets		
Invested in capital assets, net of debt	\$ 49.6	\$ 46.7
Restricted	2.7	2.5
Unrestricted	9.3	12.2
Total Net Assets	<u><u>\$ 61.6</u></u>	<u><u>\$ 61.4</u></u>

Net assets of the County's governmental activities increased by 0.4 percent (\$61.6 million compared to \$61.4 million). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirement--changed from a \$12.2 million surplus at December 31, 2003, to \$9.3 million at the end of this year.

TABLE 2
Changes in Net Assets
(in Millions)

	Governmental Activities	
	2004	2003
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 3.4	\$ 3.2
Operating grants and contributions	11.1	11.6
Capital grants and contributions	-	0.2
General revenues		
Property taxes	10.8	9.7
Grants and contributions	2.6	3.1
Other general revenues	0.5	0.4
Total Revenues	\$ 28.4	\$ 28.2
Expenses		
General government	\$ 2.4	\$ 4.5
Public safety	5.9	3.3
Highways and streets	5.5	8.1
Human services	8.2	9.8
Health	2.3	1.4
Sanitation	0.4	0.2
Culture and recreation	0.3	0.2
Conservation of natural resources	1.6	1.1
Economic development	0.1	0.2
Interest	1.4	0.7
Total Expenses	\$ 28.1	\$ 29.5
Increase (Decrease) in Net Assets	\$ 0.3	\$ (1.3)

Governmental Activities

Revenues for the County's governmental activities were \$28.4 million, while total expenses were \$28.1 million. This resulted in a \$0.3 million increase in net assets in the year ended December 31, 2004.

The amount that our taxpayers ultimately financed for these activities through County taxes and other general sources was only \$13.6 million because some of the cost was paid by those who directly benefited from the programs (\$3.4 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11.1 million). The County paid for the remaining "public benefit" portion of governmental activities with \$13.9 million in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as interest and general entitlements. The balance of \$0.3 million was added to existing net assets.

Table 3 presents the cost of each of the County’s six largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

TABLE 3
Governmental Activities
(in Millions)

	2004		2003	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Human services	\$ 8.2	\$ 3.4	\$ 9.8	\$ 3.9
Public safety	5.9	4.7	3.3	2.1
Highways and streets	5.5	0.9	8.1	3.8
General government	2.5	1.2	4.5	3.7
Health	2.3	0.8	1.4	0.2
Conservation of natural resources	1.6	1.3	1.0	0.3
All others	2.1	1.3	1.4	0.5
Total	\$ 28.1	\$ 13.6	\$ 29.5	\$ 14.5

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$15.4 million, which is below last year’s restated total of \$17.9 million. Included in this year’s total fund balance is a surplus of \$6.4 million in the County’s General Fund. The General Fund’s change in fund balance (a decrease of \$0.9 million from 2003) represented 38 percent of the total decrease (\$2.5 million) in governmental fund balances. All of the General Fund’s decrease is due to budgeted use of funds to keep the levy increase to a minimum. The Social Services Special Revenue Fund has a decrease of \$0.4 million, also a budgeted use of existing funds. The Road and Bridge Special Revenue Fund shows an increase (\$1.0 million) due to not being able to complete projects because of a mid-summer flood. The largest decrease in governmental fund balances was in the Courthouse Improvement Capital Projects Fund due to the construction costs for the Government Center project.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County’s General Fund budget several times. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and cuts in state aids and grants.

Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.6 million below the final budget amounts. The most significant positive variance in net change in fund balance (\$1.0 million) occurred in the Road and Bridge Special Revenue Fund, and the largest negative variance occurred in the Ditch Special Revenue Fund (\$0.5 million). A mid-summer flood was the main reason for both variances because money had to be spent to make immediate repairs to the ditches, and planned work in Road and Bridge had to be postponed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$73.8 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of just over \$11.8 million, or 19 percent, over last year.

TABLE 4
Capital Assets at Year-End
(Net of Depreciation, in Millions)

	Governmental Activities	
	2004	2003 (Restated)
Land	\$ 3.9	\$ 3.9
Land improvements	0.4	-
Construction in progress	18.0	13.9
Buildings and improvements	11.6	2.4
Machinery, vehicles, furniture, and equipment	2.3	2.2
Infrastructure	37.6	38.9
Total	<u>\$ 73.8</u>	<u>\$ 61.3</u>

This year's major additions included (in millions):

- completion of the jail facility segment of construction of \$9.5 million;
- highway infrastructure additions of \$3.4 million; and
- substantial completion of new government and courts facility, which resulted in construction in progress increasing \$2.1 million.

Debt

At year-end, the County had \$28.7 million in bonds and notes outstanding, versus \$29.9 million last year--a decrease of 4.3 percent, as shown in Table 5.

TABLE 5
Outstanding Debt at Year-End
(in Millions)

	Governmental Activities	
	2004	2003
General obligation bonds and notes (backed by the County)	\$ 12.0	\$ 12.8
General obligation lease revenue	7.3	7.5
Lease revenue bonds	9.4	9.6
Total	<u>\$ 28.7</u>	<u>\$ 29.9</u>

The County's general obligation bond rating was "A3" at its last bond issuance in November 2002, and there has been no change since then. Other obligations include accrued vacation pay and sick leave payable. The County also has an agreement with the State of Minnesota to make annual payments for an armory until 2009. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal-year 2005 budget, tax rates, and fees that will be charged for the internal service fund.

- County General Fund expenditures for 2005 are budgeted to decrease 4.76 percent over 2004;
- the combined budget for 2005 decreased \$1,031,354, or 3.24 percent, from the 2004 budget;
- the state reinstated County aids for 2005 by \$677,000; and
- property tax levies have increased 5.8 percent for 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County's Finance Manager, William M. Helfritz, at 411 South Broadway, Albert Lea, Minnesota 56007.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Governmental Activities	Discretely Presented Component Units
<u>Assets</u>		
Cash and pooled investments	\$ 15,835,633	\$ 619,527
Petty cash and change funds	1,725	-
Taxes receivable		
Prior - net	321,111	27,530
Special assessments receivable		
Prior - net	22,881	4,558
Noncurrent - net	1,207,080	609,986
Accounts receivable - net	271,186	-
Accrued interest receivable	44,880	-
Due from other governments	1,798,460	-
Due from component unit	52,073	-
Prepaid items	-	1,652
Inventories	85,645	-
Restricted assets		
Restricted cash and investments on deposit for construction	3,064	-
Restricted cash and investments on deposit for debt service	977,708	-
Restricted investments on deposit with trustee for construction	912,030	-
Advance to component unit	30,000	-
Deferred charges	101,095	-
Capital assets		
Non-depreciable	22,263,583	-
Depreciable - net of accumulated depreciation	51,586,810	-
	\$ 95,514,964	\$ 1,263,253
<u>Liabilities</u>		
Accounts payable	\$ 894,569	\$ 41,811
Salaries payable	476,009	-
Contracts payable	61,256	-
Due to other governments	955,570	-
Due to primary government	-	52,073
Accrued interest payable	223,842	7,793
Payable from restricted assets		
Contracts payable	1,308,173	-
Interest payable	327,395	-
Advance from primary government	-	30,000
Long-term liabilities		
Due within one year	1,702,204	125,000
Due in more than one year	27,924,944	555,000
	\$ 33,873,962	\$ 811,677

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Governmental Activities	Discretely Presented Component Units
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 49,603,021	\$ -
Restricted for		
General government	80,167	-
Highways and streets	1,312,535	-
Conservation of natural resources	1,206,673	-
Debt service	751,408	-
Endowment - nonexpendable	86,494	-
Unrestricted	8,600,704	451,576
Total Net Assets	\$ 61,641,002	\$ 451,576

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	\$ 2,464,517	\$ 1,078,863
Public safety	5,871,849	617,101
Highways and streets	5,475,920	40,268
Sanitation	373,776	187
Human services	8,173,324	232,822
Health	2,288,913	893,696
Culture and recreation	295,449	427
Conservation of natural resources	1,624,509	70,851
Economic development	112,607	475,277
Interest	1,425,780	-
Total primary government	\$ 28,106,644	\$ 3,409,492
Component Units		
Shell Rock River Watershed District	\$ 115,872	\$ -
Turtle Creek Watershed District	235,496	4,454
Total component units	\$ 351,368	\$ 4,454

General Revenues

Property taxes
Gravel taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in net assets

Net Assets - Beginning, restated (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Total	Discretely Presented Component Units
\$ 228,326	\$ -	\$ (1,157,328)	
553,226	9,173	(4,692,349)	
4,522,333	7,184	(906,135)	
336,043	-	(37,546)	
4,533,958	-	(3,406,544)	
630,592	-	(764,625)	
-	-	(295,022)	
274,008	-	(1,279,650)	
-	-	362,670	
-	-	(1,425,780)	
\$ 11,078,486	\$ 16,357	\$ (13,602,309)	
\$ -	\$ -		\$ (115,872)
105,563	-		(125,479)
\$ 105,563	\$ -		\$ (241,351)
		\$ 10,808,476	\$ 296,797
		24,134	-
		21,720	-
		40,248	-
		2,642,154	53,557
		270,384	459
		54,346	-
		3,050	-
		\$ 13,864,512	\$ 350,813
		\$ 262,203	\$ 109,462
		61,378,799	342,114
		\$ 61,641,002	\$ 451,576

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,703,895	\$ 2,896,840
Petty cash and change funds	1,725	-
Taxes receivable		
Prior	128,662	35,334
Special assessments receivable		
Prior	-	-
Noncurrent	23,288	-
Accounts receivable	62,151	3,887
Accrued interest receivable	44,581	-
Due from other funds	22,436	1,718
Due from other governments	201,165	789,344
Due from component unit	52,073	-
Inventories	-	85,645
Advances to other funds	1,883,381	-
Advance to component unit	30,000	-
	\$ 7,153,357	\$ 3,812,768
Total Assets	\$ 7,153,357	\$ 3,812,768

EXHIBIT 3

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 6,175,979	\$ 1,003,937	\$ 1,054,982	\$ 15,835,633
-	-	-	1,725
96,989	-	26,273	287,258
-	22,881	-	22,881
-	1,183,792	-	1,207,080
89,099	-	-	155,137
-	-	299	44,880
-	1,952	-	26,106
807,339	612	-	1,798,460
-	-	-	52,073
-	-	-	85,645
-	-	-	1,883,381
-	-	-	30,000
<u>\$ 7,169,406</u>	<u>\$ 2,213,174</u>	<u>\$ 1,081,554</u>	<u>\$ 21,430,259</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 318,610	\$ 42,197
Salaries payable	267,331	60,143
Contracts payable	-	61,256
Due to other funds	1,952	-
Due to other governments	11,457	840,740
Deferred revenue - unavailable	105,575	447,940
Advance from other funds	-	-
	\$ 704,925	\$ 1,452,276
Fund Balances		
Reserved for		
Debt service	\$ 8,796	\$ -
Inventories	-	85,645
Advances to other funds	1,883,381	-
Law library	68,670	-
Attorney forfeited property	11,497	-
Endowments	-	-
Highway projects	-	1,312,535
Unreserved		
Designated for future expenditures	-	-
Designated for cash flows	2,973,000	655,000
Designated for compensated absences	507,823	170,978
Designated for contingencies	542,167	-
Undesignated	453,098	136,334
Unreserved, reported in nonmajor Permanent funds	-	-
	\$ 6,448,432	\$ 2,360,492
Total Liabilities and Fund Balances	\$ 7,153,357	\$ 3,812,768

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 360,812	\$ 103,978	\$ 68,972	\$ 894,569
148,535	-	-	476,009
-	-	-	61,256
12,156	11,998	-	26,106
95,002	8,371	-	955,570
54,412	1,206,673	13,441	1,828,041
-	1,767,332	-	1,767,332
\$ 670,917	\$ 3,098,352	\$ 82,413	\$ 6,008,883
\$ -	\$ -	\$ 911,528	\$ 920,324
-	-	-	85,645
-	-	-	1,883,381
-	-	-	68,670
-	-	-	11,497
-	-	86,494	86,494
-	-	-	1,312,535
751,000	-	-	751,000
1,749,000	-	-	5,377,000
285,276	-	-	964,077
-	-	-	542,167
3,713,213	(885,178)	-	3,417,467
-	-	1,119	1,119
\$ 6,498,489	\$ (885,178)	\$ 999,141	\$ 15,421,376
\$ 7,169,406	\$ 2,213,174	\$ 1,081,554	\$ 21,430,259

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	15,421,376
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		73,850,393
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,828,041
Internal service funds are used by management to charge the costs of management of fleet maintenance and self-insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
Total internal service fund net assets	\$ 1,268,802	
Net assets representing capital assets included above	<u>(17,438,691)</u>	(16,169,889)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (11,345,000)	
Notes payable	(620,000)	
Contract with State of Minnesota	(136,000)	
Compensated absences	(964,077)	
Accrued interest payable	<u>(223,842)</u>	<u>(13,288,919)</u>
Net assets of governmental activities (Exhibit 1)		<u>\$ 61,641,002</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 4,419,796	\$ 1,142,709
Special assessments	331,896	-
Licenses and permits	160,644	-
Intergovernmental	2,816,656	4,702,018
Charges for services	1,444,839	40,268
Fines and forfeits	174,588	-
Gifts and contributions	840	-
Interest on investments	221,690	-
Miscellaneous	520,928	54,346
	\$ 10,091,877	\$ 5,939,341
Expenditures		
Current		
General government	\$ 4,123,160	\$ -
Public safety	4,282,346	-
Highways and streets	11,088	4,921,667
Sanitation	373,776	-
Human services	-	-
Health	1,242,427	-
Culture and recreation	295,449	-
Conservation of natural resources	599,773	-
Economic development	43,635	-
Capital outlay	22,509	-
Debt service		
Principal retirement	34,000	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 11,028,163	\$ 4,921,667
Excess of Revenues Over (Under) Expenditures	\$ (936,286)	\$ 1,017,674
Other Financing Sources (Uses)		
Proceeds from sale of capital assets	3,050	-
	\$ (933,236)	\$ 1,017,674
Fund Balance - January 1, as previously reported	\$ 7,295,619	\$ 1,346,514
Prior period adjustment	86,049	-
	\$ 7,381,668	\$ 1,346,514
Fund Balance - January 1, as restated (Note 1.E.)		
Increase (decrease) in reserved for inventories	\$ -	\$ (3,696)
Fund Balance - December 31	\$ 6,448,432	\$ 2,360,492

EXHIBIT 5

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,055,731	\$ -	\$ 1,020,947	\$ 9,639,183
-	540,806	-	872,702
-	-	-	160,644
5,391,086	-	138,759	13,048,519
583,192	-	-	2,068,299
3,043	-	-	177,631
28,885	-	-	29,725
-	-	10,292	231,982
10,025	25,980	468,290	1,079,569
\$ 9,071,962	\$ 566,786	\$ 1,638,288	\$ 27,308,254
\$ -	\$ -	\$ -	\$ 4,123,160
278,627	-	-	4,560,973
-	-	-	4,932,755
-	-	-	373,776
8,147,601	-	-	8,147,601
1,038,099	-	-	2,280,526
-	-	-	295,449
-	1,018,441	790	1,619,004
-	-	68,972	112,607
-	-	1,743,011	1,765,520
-	-	880,000	914,000
-	81,953	555,756	637,709
-	-	2,474	2,474
\$ 9,464,327	\$ 1,100,394	\$ 3,251,003	\$ 29,765,554
\$ (392,365)	\$ (533,608)	\$ (1,612,715)	\$ (2,457,300)
-	-	-	3,050
\$ (392,365)	\$ (533,608)	\$ (1,612,715)	\$ (2,454,250)
\$ 6,890,854	\$ (12,036)	\$ 2,611,856	\$ 18,132,807
-	(339,534)	-	(253,485)
\$ 6,890,854	\$ (351,570)	\$ 2,611,856	\$ 17,879,322
\$ -	\$ -	\$ -	\$ (3,696)
\$ 6,498,489	\$ (885,178)	\$ 999,141	\$ 15,421,376

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (2,454,250)**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,828,041	
Deferred revenue - January 1	(2,218,559)	(390,518)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 3,541,774	
Current year depreciation	(1,984,285)	1,557,489

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 585,000	
General obligation notes	295,000	
Contract with State of Minnesota	34,000	914,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 15,447	
Change in inventories	(3,696)	
Change in compensated absences	(8,506)	3,245

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.

Net income of the Internal Service Fund		632,237
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Change in net assets of governmental activities (Exhibit 2) **\$ 262,203**

PROPRIETARY FUND

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
DECEMBER 31, 2004**

Assets

Current assets

Taxes receivable	
Prior	\$ 33,853

Restricted assets

Cash and pooled investments on deposit for construction	\$ 3,064
Cash and pooled investments on deposit for debt service	977,708
Investments on deposit with trustee for construction	912,030

Total restricted assets **\$ 1,892,802**

Noncurrent assets

Deferred debt issuance costs	\$ 101,095
Capital assets	
Nondepreciable	16,834,429
Depreciable - net	604,262

Total noncurrent assets **\$ 17,539,786**

Total Assets **\$ 19,466,441**

Liabilities

Current liabilities payable from restricted assets

Contracts payable	\$ 1,308,173
Interest payable	327,395
Revenue bonds payable - current	610,000

Total current liabilities payable from restricted assets **\$ 2,245,568**

Noncurrent liabilities

Revenue bonds payable - long-term	15,952,071
-----------------------------------	------------

Total Liabilities **\$ 18,197,639**

Net Assets

Invested in capital assets - net of related debt	\$ 876,620
Restricted for debt service	751,408
Unrestricted	(359,226)

Total Net Assets **\$ 1,268,802**

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Expenses		
Depreciation	\$	<u>14,780</u>
Operating Income (Loss)	\$	<u>(14,780)</u>
Nonoperating Revenues (Expenses)		
Property taxes	\$	1,222,132
Intergovernmental		178,354
Interest income		47,575
Interest expense		(788,933)
Bond issue expense		<u>(12,111)</u>
Total Nonoperating Revenues (Expenses)	\$	<u>647,017</u>
Change in Net Assets	\$	<u>632,237</u>
Net Assets - January 1, as previously reported	\$	1,389,044
Prior period adjustment		<u>(752,479)</u>
Net Assets - January 1, restated (Note 1.E.)	\$	<u>636,565</u>
Net Assets - December 31	\$	<u><u>1,268,802</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Noncapital Financing Activities	
Taxes	\$ 1,210,842
Intergovernmental	178,354
	<hr/>
Net cash provided by (used in) noncapital financing activities	\$ 1,389,196
	<hr/>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (420,000)
Interest paid on long-term debt	(794,860)
Investment earnings on invested construction funds	50,862
Purchases of capital assets	(10,344,540)
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (11,508,538)
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (10,119,342)
	<hr/>
Cash and Cash Equivalents at January 1	12,012,144
	<hr/>
Cash and Cash Equivalents at December 31	\$ 1,892,802
	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (14,780)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	14,780
	<hr/>
Net cash provided by operating activities	\$ -
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FIDUCIARY FUNDS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and cash equivalents	\$ 11,869	\$ 692,544
Receivables		
Interest	19	-
	\$ 11,888	\$ 692,544
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 6,015
Due to other governments	-	570,480
Advance from governmental funds	-	116,049
	\$ -	\$ 692,544
<u>Net Assets</u>		
Net assets, held in trust for other purposes	\$ 11,888	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 103
<u>Deductions</u>	
Payments in accordance with trust agreements	400
Change in Net Assets	\$ (297)
Net Assets - Beginning of the Year	12,185
Net Assets - End of the Year	<u>\$ 11,888</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its proprietary funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Freeborn County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Freeborn County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Freeborn County has one blended component unit.

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Freeborn County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	County Commissioners are the HRA Board, and the HRA is a financial burden.	Separate financial statements are not prepared.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

While part of the reporting unit, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Freeborn County are discretely presented:

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Shell Rock River Watershed District	County appoints members to the District Board.	Shell Rock River Watershed District 411 South Broadway Albert Lea, Minnesota 56007
Turtle Creek Watershed District (Joint County 24 Drainage System)	County appoints members to the District Board.	Separate financial statements of the total District are not prepared.

Joint Ventures

The County participates in several joint ventures which are described in Note 5.C. The County also participates in jointly-governed organizations that are described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net assets (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

Additionally, the County reports the following fund types:

The Internal Service Fund accounts for HRA building facilities (jail and other general office space) activities provided to other departments and funds on a cost-reimbursement basis.

Private Purpose Trust Funds are used to account for resources legally held in trust for others.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Freeborn County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$221,690.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County, as well as its component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	20 - 30
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 15

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Compensated Absences (Continued)

the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Prior Period Adjustments and Reclassifications

Funds

As of January 1, 2004, the General Fund was restated to record an advance of \$86,049 made to the Insurance Agency Fund in prior years. The General Fund's restated fund balance at January 1, 2004, was \$7,381,668.

Also, as of January 1, 2004, the Joint County 24 Drainage System fund balance of \$339,534 was transferred from the Ditch Special Revenue Fund to reclassify it as part of the Turtle Creek Watershed District, a discretely presented component unit. Long-term debt of \$800,000 and accrued interest of \$8,918 were also transferred to the Watershed District. The Ditch Special Revenue Fund's restated fund balance at January 1, 2004, was a deficit of \$351,570.

In prior years, the HRA Internal Service Fund capitalized construction-period interest as a portion of capital assets. Since construction-period interest is not to be capitalized in governmental activities, net assets at January 1, 2004, have been reduced by \$752,479 to \$635,565.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

E. Prior Period Adjustments and Reclassifications (Continued)

Governmental Activities

Governmental activities' net assets were restated to reflect the prior period adjustments and reclassifications.

Net Assets - January 1, as previously reported	\$ 61,575,845
Correction of error in General Fund - advance	86,049
Reclassification of Joint County 24 Drainage System	
Fund balance	(339,534)
Long-term debt	800,000
Accrued interest payable	8,918
Correction of error in HRA Internal Service Fund - construction-period interest	<u>(752,479)</u>
Net Assets - January 1, as restated	<u>\$ 61,378,799</u>

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance

The Ditch Special Revenue Fund had a deficit fund balance of \$885,178 as of December 31, 2004. Deficit fund balances of 28 individual ditch systems totaled \$1,665,190. The individual ditch deficits will be eliminated with the collection of deferred special assessment levies against benefited properties.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental Funds	
Cash and pooled investments	\$ 15,835,633
Petty cash and change funds	1,725
Internal Service Fund	
Cash and pooled investments	
On deposit for construction	3,064
On deposit for debt service	977,708
Investments on deposit with trustee for construction	912,030
Fiduciary Funds	
Cash and pooled investments	
Private-Purpose Trust Fund	11,869
Agency funds	692,544
	<hr/>
Total primary government	\$ 18,434,573
Funds held by County for Turtle Creek Watershed District Component Unit	<hr/> 366,587
	<hr/>
Total Cash and Investments	\$ 18,801,160

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$11,126,412. The bank balance deposit amount was \$11,881,033. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 590,000
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>11,291,033</u>
Total covered deposits	\$ 11,881,033
Uncollateralized	<u>-</u>
Total	<u><u>\$ 11,881,033</u></u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 2,779,133	\$ -	\$ -	\$ 2,779,133
Commercial paper	1,496,579	-	-	1,496,579
Municipal bonds	233,098	-	-	233,098
Total Investments	\$ 4,508,810	\$ -	\$ -	\$ 4,508,810
Add				
Money market mutual funds				3,164,213
Change and petty cash funds				1,725
Deposits				11,126,412
Total Cash and Investments				\$ 18,801,160

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 274,333
Less: allowance for uncollectible	
Nursing services	(3,147)
Total Receivables	\$ 271,186

Receivables are expected to be collected within the next year.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Prior Period Adjustment	Increase	Decrease	Ending Balance
Capital assets not depreciated					
Land					
General	\$ 322,142	\$ -	\$ -	\$ -	\$ 322,142
Highway infrastructure	3,534,332	-	-	-	3,534,332
Improvements other than buildings	-	-	387,067	-	387,067
Construction in progress					
General	14,673,961	(752,479)	12,635,847	9,722,900	16,834,429
Highway infrastructure	26,296	-	1,159,317	-	1,185,613
Total capital assets not depreciated	<u>\$ 18,556,731</u>	<u>\$ (752,479)</u>	<u>\$ 14,182,231</u>	<u>\$ 9,722,900</u>	<u>\$ 22,263,583</u>
Capital assets depreciated					
Buildings and improvements	\$ 6,160,475	\$ -	\$ 9,335,833	\$ 1,126,668	\$ 14,369,640
Machinery, furniture, and equipment	3,994,219	-	711,153	73,097	4,632,275
Infrastructure - sewer	374,579	-	-	-	374,579
Infrastructure - highway	76,627,057	-	106,261	15,122	76,718,196
Total capital assets depreciated	<u>\$ 87,156,330</u>	<u>\$ -</u>	<u>\$ 10,153,247</u>	<u>\$ 1,214,887</u>	<u>\$ 96,094,690</u>
Less: accumulated depreciation for					
Buildings and improvements	\$ 3,725,272	\$ -	\$ 147,408	\$ 1,099,954	\$ 2,772,726
Machinery, furniture, and equipment	1,843,686	-	480,863	72,263	2,252,286
Infrastructure - sewer	61,181	-	14,983	-	76,164
Infrastructure - highway	38,060,079	-	1,355,811	9,186	39,406,704
Total accumulated depreciation	<u>\$ 43,690,218</u>	<u>\$ -</u>	<u>\$ 1,999,065</u>	<u>\$ 1,181,403</u>	<u>\$ 44,507,880</u>
Total capital assets depreciated, net	<u>\$ 43,466,112</u>	<u>\$ -</u>	<u>\$ 8,154,182</u>	<u>\$ 33,484</u>	<u>\$ 51,586,810</u>
Capital Assets, Net	<u>\$ 62,022,843</u>	<u>\$ (752,479)</u>	<u>\$ 22,336,413</u>	<u>\$ 9,756,384</u>	<u>\$ 73,850,393</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General government	\$	195,605
Public safety		74,951
Highways and streets, including depreciation of infrastructure assets		1,711,646
Human services		12,027
Conservation of natural resources		4,836
Total Depreciation Expense - Governmental Activities	\$	1,999,065

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Social Services Special Revenue Fund Ditch Special Revenue Fund	\$ 10,438 11,998
Total Due to General Fund		\$ 22,436
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	1,718
Ditch Special Revenue Fund	General Fund	1,952
Total Due To/From Other Funds		\$ 26,106

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund Insurance Agency Fund	\$ 1,767,332 116,049
Total Advances To/From Other Funds		\$ 1,883,381

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following (amounts in thousands):

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Jail construction	\$ 9,643	\$ -
Government center	16,834	1,200
Roads and bridges	1,580	61

2. Other Postemployment Benefits

Retirees

The County provides postemployment health care benefits for certain retirees and their dependents. The County contributes \$113.02 a month per participant for health insurance. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This benefit is not available to anyone hired after April 7, 1987.

As of year-end, the County has 77 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$107,256 for these benefits.

The County also offered a one-time early retirement incentive in 1999. Eligible retirees can maintain their health insurance at the same cost formula as current employees.

This benefit is funded on a pay-as-you-go basis. Freeborn County has two retirees eligible for this benefit. The County expended \$11,326 for this benefit in 2004.

Elected Officials

The County offers the same benefit to elected officials.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits

Elected Officials (Continued)

This benefit is funded on a pay-as-you-go basis. Freeborn County has 11 former elected officials eligible for this benefit. The County expended \$14,919 for this benefit in 2004.

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds					
1998 G.O. Tax Increment Bonds	2009	\$280,000 - \$450,000	5.90-6.40	\$ 3,220,000	\$ 2,000,000
2002 G.O. Criminal Justice Bonds	2023	\$255,000 - \$695,000	3.00-5.00	<u>9,600,000</u>	<u>9,345,000</u>
Total General Obligation Bonds				<u>\$ 12,820,000</u>	<u>\$ 11,345,000</u>
2001 G.O. Capital Notes	2006	\$85,000 - \$315,000	2.50-3.70	<u>\$ 1,000,000</u>	<u>\$ 620,000</u>
2002 Law Enforcement Center G.O. Lease Revenue Bonds	2023	\$190,000 - \$550,000	3.25-5.00	<u>\$ 7,470,000</u>	\$ 7,280,000
Less: unamortized discount					<u>(31,755)</u>
Lease Revenue Bonds, Net					<u>\$ 7,248,245</u>
2002 Criminal Justice Lease Revenue Bonds	2023	\$230,000 - \$720,000	3.50-5.50	<u>\$ 9,630,000</u>	\$ 9,400,000
Less: unamortized discount					<u>(86,174)</u>
Lease Revenue Bonds, Net					<u>\$ 9,313,826</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2005	\$ 705,000	\$ 498,715	\$ 305,000	\$ 16,993
2006	740,000	465,346	315,000	5,828
2007	775,000	429,927	-	-
2008	810,000	391,953	-	-
2009	845,000	350,890	-	-
2010 - 2014	2,205,000	1,438,398	-	-
2015 - 2019	2,670,000	932,993	-	-
2020 - 2023	2,595,000	259,462	-	-
Total	<u>\$ 11,345,000</u>	<u>\$ 4,767,684</u>	<u>\$ 620,000</u>	<u>\$ 22,821</u>

Year Ending December 31	Law Enforcement G.O. Lease Revenue Bonds		Criminal Justice Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 270,000	\$ 302,560	\$ 340,000	\$ 472,850
2006	275,000	293,704	350,000	460,775
2007	285,000	284,240	360,000	447,450
2008	295,000	274,098	375,000	432,281
2009	305,000	263,597	390,000	415,537
2010 - 2014	1,710,000	1,129,246	2,190,000	1,769,919
2015 - 2019	2,090,000	734,799	2,710,000	1,121,787
2020 - 2023	2,050,000	205,382	2,685,000	304,013
Total	<u>\$ 7,280,000</u>	<u>\$ 3,487,626</u>	<u>\$ 9,400,000</u>	<u>\$ 5,424,612</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation					
Bonds	\$ 11,930,000	\$ -	\$ 585,000	\$ 11,345,000	\$ 705,000
G.O. Capital Notes	915,000	-	295,000	620,000	305,000
G.O. Lease Revenue	7,470,000	-	190,000	7,280,000	270,000
Lease Revenue Bonds	9,630,000	-	230,000	9,400,000	340,000
Less: deferred amounts for issuance discounts	(124,450)	-	(6,521)	(117,929)	-
Total bonds payable	\$ 29,820,550	\$ -	\$ 1,293,479	\$ 28,527,071	\$ 1,620,000
Compensated absences	955,571	8,506	-	964,077	48,204
Armory commitment to state	170,000	-	34,000	136,000	34,000
Governmental Activity Long-Term Liabilities	<u>\$ 30,946,121</u>	<u>\$ 8,506</u>	<u>\$ 1,327,479</u>	<u>\$ 29,627,148</u>	<u>\$ 1,702,204</u>

Payments on the General Obligation Bonds are made from the TIF #1 Debt Service Fund, and payments on the G.O. Capital Notes are made from the Capital Equipment Debt Service Fund.

4. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Freeborn County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 471,425	\$ 85,801	\$ 73,712
2003	481,422	80,383	52,358
2002	456,122	86,040	46,229

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 and \$760,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Property and Casualty Division of the MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

The County has entered into a joint powers agreement with the cooperative to authorize the Board to exercise the common powers of the participating governmental units in connection with certain matters pertaining to the administration and funding of Group Employee Benefits and other financial risk management services. The County may choose to participate in any of the services offered. The County may withdraw from the pool at any time giving a 90-day written notice. There is no contingent liability after withdrawal.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Joint Ventures

Family Services Collaborative

The Freeborn County Family Services Collaborative was established in 1996 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Freeborn County; the City of Albert Lea; and Independent School District Nos. 241, 242, and 2866, each of which appoints members to the Collaborative's governing Board. The

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Family Services Collaborative (Continued)

purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints two members to this 13-member Board. The Freeborn County Department of Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2004, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

Currently, the Collaborative does not prepare complete financial statements; therefore, the Collaborative does not have audited financial statements. Financial information can be obtained by contacting Alan Olson, Accountant, Freeborn County Social Services, P. O. Box 1248, Albert Lea, Minnesota 56007.

South County Health Alliance

The South County Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. The agreement was in accordance with Section 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the nine participating member counties' health care functions, referred to as county-based purchasing.

The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the above-listed member counties.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South County Health Alliance (Continued)

While the SCHA was created on July 2, 1998, it did not begin providing health maintenance services until November 1, 2001. At that time, the SCHA began coverage of the beneficiaries enrolled under Medicaid and General Assistance Medical Care in the specified counties. Funding is provided from the State of Minnesota based on eligible participants within the member counties. Freeborn County's contribution for start-up costs through October 31, 2001, was \$117,972. In the event the SCHA incurs operating deficits, the member counties would maintain the SCHA's reserves to meet statutory and regulatory reserve requirements. Minnesota statutes require the SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months' expenditures. The SCHA is in compliance with these requirements at December 31, 2004. During 2004, Freeborn County made no payments to the SCHA.

Complete financial statements for the SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

D. Jointly-Governed Organizations

Freeborn County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$68,770 to the Cooperative.

South Central Minnesota County Comprehensive Water Planning Project

This Joint Powers was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$1,000 to the Project.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southeast Minnesota Emergency Management Services (EMS)

This Joint Powers was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board was established to provide regional water quality services to member counties. During the year, Freeborn County expended \$250 to the Board.

Southeastern Minnesota Library

This Joint Powers was established to provide library services to member counties. During the year, Freeborn County expended \$214,000 to the Joint Powers.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force was established to provide drug investigation services to member counties. During the year, Freeborn County expended \$4,506 to the Task Force.

E. Tax Increment Financing

The Freeborn County Housing and Redevelopment Authority is the administrating authority for the following tax increment financing district:

Tax Increment Financing District #1-1	
An Economic Development District	
Authorizing Law: Minn. Stat. §§ 469.174-469.179	
Year Established	1989
Duration of District	11 years
Original Net Tax Capacity	\$ 320
Current Net Tax Capacity	77,232
Captured Net Tax Capacity	76,912
Retained by Authority	76,912
Shared with Other Taxing Districts	-

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

5. Summary of Significant Contingencies and Other Items

E. Tax Increment Financing (Continued)

Total General Obligation Bonds issued	\$ 3,220,000
Total loans incurred	-
Amounts redeemed (principal only)	<u>1,220,000</u>
Outstanding Bonds and Loans at December 31, 2004	<u>\$ 2,000,000</u>

6. Shell Rock River Watershed District

The Shell Rock River Watershed District prepares its financial statements in conformity with the same accounting principles used by the County and detailed in the previous notes. In addition to those already identified, the Watershed has the following detailed disclosures.

A. Summary of Significant Accounting Policies

Reporting Entity

The Shell Rock River Watershed District was originally created on June 25, 2003, by the Minnesota Board of Water and Soil Resources (BWSR) as provided in Minn. Stat. ch. 103D. The purpose of the District is to ensure that development, use, control, and conservation of the District's water resources is done in a manner most beneficial to the general welfare of its present and future residents. A seven-member Board of Managers, originally appointed by the BWSR, operates the District. Subsequent appointments will be made by Freeborn County.

B. Detailed Notes

Deposits and Investments

The carrying amount of the District's deposits, at December 31, 2004, was \$207,444. Of the bank balance of \$214,479, \$100,000 is covered by insurance or collateral, and \$114,479 is uncollateralized or collateralized with securities not in the District's name.

Other Assets and Liabilities

The District has no capital assets or long-term debt.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

6. Shell Rock River Watershed District (Continued)

C. Pension Plans

The District participates in the Public Employees Retirement Association of Minnesota Public Employees Retirement Fund. Contributions to the fund for the years ending December 31, 2004 and 2003, were \$1,005 and \$0, respectively.

7. Turtle Creek Watershed District

In addition to those already identified, the Watershed District has the following significant disclosures.

A. Summary of Significant Accounting Policies

Reporting Entity

The Watershed District was formed and operates pursuant to applicable Minnesota laws and regulations. The governing body consists of a five-member Board. Mower County appoints one member, and Freeborn County appoints four members. Members are appointed for three-year terms.

Basis of Presentation

The Watershed District does not prepare financial statements that include all its operations. Freeborn County is fiscal agent for the Operating Fund but not the General Administration Fund.

Basis of Accounting

The Watershed District's governmental fund financial statements are reported using the modified accrual basis of accounting.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

7. Turtle Creek Watershed District (Continued)

B. Detailed Notes on All Funds

1. Deposits and Investments

Turtle Creek Watershed District deposits and investments at December 31, 2004, were:

Cash on deposit with Freeborn County	\$	366,587
Cash in checking and savings accounts		45,496
Total Cash and Investments	\$	412,083

All of the District's cash and investments are covered by collateral or insurance at December 31, 2004.

2. Liabilities

Long-Term Debt

Long-term debt outstanding at December 31, 2004, for the Watershed District consists of the following:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Remaining Commitment
Special assessment refunding bonds with government commitment	2010	\$105,000 - \$125,000	2.25 - 3.35	\$ 800,000	\$ 680,000

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

7. Turtle Creek Watershed District

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Debt Service Requirements

Special assessment refunding bond debt service requirements to maturity for the Watershed District are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 125,000	\$ 17,296
2006	115,000	14,568
2007	115,000	11,750
2008	110,000	8,605
2009	110,000	5,236
2010	<u>105,000</u>	<u>1,759</u>
Total	<u>\$ 680,000</u>	<u>\$ 59,214</u>

Changes in Long-Term Liabilities

The following is a summary of the changes in long-term liabilities of the Watershed District for the year ended December 31, 2004.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Special assessment refunding bonds with government commitment	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 680,000</u>	<u>\$ 125,000</u>

Debt is paid by the Operating Fund.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

7. Turtle Creek Watershed District

B. Detailed Notes on All Funds (Continued)

3. Fund Balance/Net Assets Restated

As of January 1, 2004, the Joint County 24 Drainage System, previously reported as part of Freeborn County, was reclassified as the Operating Fund of the Watershed District. Long-term debt and accrued interest of the Drainage System is also now reported as part of the Watershed District. Fund balance and net assets were restated to reflect these reclassifications.

	Fund Balance	Net Assets
Fund Balance		
General Administration Fund	\$ 76,730	\$ 76,730
Operating Fund	339,534	339,534
Bonds payable	-	(800,000)
Accrued interest payable	-	(8,918)
Deferred revenue	-	766,648
Fund Balance/Net Assets, January 1, Restated	\$ 416,264	\$ 373,994

REQUIRED SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,466,753	\$ 4,466,753	\$ 4,419,796	\$ (46,957)
Special assessments	305,000	305,000	331,896	26,896
Licenses and permits	77,700	77,700	160,644	82,944
Intergovernmental	2,803,307	2,803,307	2,816,656	13,349
Charges for services	1,339,450	1,339,450	1,444,839	105,389
Fines and forfeits	170,500	170,500	174,588	4,088
Gifts and contributions	-	-	840	840
Investment earnings	801,000	801,000	221,690	(579,310)
Miscellaneous	651,000	651,000	520,928	(130,072)
Total Revenues	\$ 10,614,710	\$ 10,614,710	\$ 10,091,877	\$ (522,833)
Expenditures				
Current				
General government				
Commissioners	\$ 148,380	\$ 148,380	\$ 167,202	\$ (18,822)
Courts	378,075	378,075	343,494	34,581
County administration	1,504,443	1,504,443	1,038,490	465,953
County auditor/treasurer	429,443	429,443	459,203	(29,760)
License bureau	226,634	226,634	240,829	(14,195)
County assessor	377,744	377,744	358,717	19,027
Elections	89,000	89,000	45,691	43,309
Central services	-	-	1,398	(1,398)
Attorney	467,155	467,155	436,544	30,611
Law library	29,500	29,500	19,141	10,359
Recorder	231,685	231,685	240,616	(8,931)
Surveyor	25,000	25,000	12,470	12,530
Buildings and plant	462,224	462,224	631,946	(169,722)
Veterans service officer	120,830	120,830	124,297	(3,467)
Other	13,275	13,275	3,122	10,153
Total general government	\$ 4,503,388	\$ 4,503,388	\$ 4,123,160	\$ 380,228
Public safety				
Sheriff	\$ 1,568,559	\$ 1,568,559	\$ 1,773,487	\$ (204,928)
Boat and water safety	4,970	4,970	5,316	(346)
Ambulance	3,500	3,500	-	3,500
Coroner	22,428	22,428	25,860	(3,432)
E-911 system	60,000	60,000	230,086	(170,086)
County jail	1,386,870	1,386,870	1,465,817	(78,947)
Law enforcement center	133,500	133,500	81,843	51,657
Community corrections	529,660	529,660	625,363	(95,703)
DARE program	5,200	5,200	969	4,231
Civil defense	13,731	13,731	69,231	(55,500)
Other public safety	6,100	6,100	4,374	1,726
Total public safety	\$ 3,734,518	\$ 3,734,518	\$ 4,282,346	\$ (547,828)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Highways and streets				
Administration	\$ 13,000	\$ 13,000	\$ 11,088	\$ 1,912
Sanitation				
Recycling	\$ 388,014	\$ 388,014	\$ 373,776	\$ 14,238
Human services				
Social services	\$ 25,000	\$ 25,000	\$ -	\$ 25,000
Health				
Community health services	\$ 321,324	\$ 321,324	\$ 289,179	\$ 32,145
Maternal and child health	72,942	72,942	74,996	(2,054)
Administration	200,206	200,206	217,012	(16,806)
Health education	3,450	3,450	36,064	(32,614)
WIC	47,468	47,468	90,913	(43,445)
Disease prevention	38,950	38,950	5,526	33,424
Child and teen checkups	32,158	32,158	22,710	9,448
Home health	716,985	716,985	506,027	210,958
Total health	\$ 1,433,483	\$ 1,433,483	\$ 1,242,427	\$ 191,056
Culture and recreation				
Historical society	\$ -	\$ -	\$ 18,910	\$ (18,910)
Parks	95,900	95,900	3,974	91,926
Museums	19,350	19,350	1,742	17,608
Regional library	214,000	214,000	214,000	-
Other	-	-	56,823	(56,823)
Total culture and recreation	\$ 329,250	\$ 329,250	\$ 295,449	\$ 33,801
Conservation of natural resources				
Cooperative extension	\$ 132,994	\$ 132,994	\$ 108,082	\$ 24,912
Soil and water conservation	86,297	86,297	86,297	-
Agricultural inspections	49,718	49,718	32,167	17,551
Agricultural society/County fair	20,000	20,000	52,066	(32,066)
Water planning	85,132	85,132	71,852	13,280
Water quality	86,200	86,200	72,180	14,020
Environmental services	168,195	168,195	177,129	(8,934)
Total conservation of natural resources	\$ 628,536	\$ 628,536	\$ 599,773	\$ 28,763

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 9,000	\$ 9,000	\$ 4,500	\$ 4,500
Tourism	900	900	900	-
Other	4,500	4,500	38,235	(33,735)
Total economic development	\$ 14,400	\$ 14,400	\$ 43,635	\$ (29,235)
Capital outlay				
General government	\$ 343,220	\$ 438,220	\$ -	\$ 438,220
Public safety	28,500	28,500	-	28,500
Highways and streets	20,000	20,000	22,509	(2,509)
Conservation of natural resources	80,000	80,000	-	80,000
Total capital outlay	\$ 471,720	\$ 566,720	\$ 22,509	\$ 544,211
Debt service				
Principal retirement	\$ -	\$ -	\$ 34,000	\$ (34,000)
Total Expenditures	\$ 11,541,309	\$ 11,636,309	\$ 11,028,163	\$ 608,146
Excess of Revenues Over (Under) Expenditures	\$ (926,599)	\$ (1,021,599)	\$ (936,286)	\$ 85,313
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	3,050	3,050
Net Change in Fund Balance	\$ (926,599)	\$ (1,021,599)	\$ (933,236)	\$ 88,363
Fund Balance - January 1	\$ 7,295,619	\$ 7,295,619	\$ 7,295,619	\$ -
Prior period adjustment	86,049	86,049	86,049	-
Fund Balance - January 1, as restated	\$ 7,381,668	\$ 7,381,668	\$ 7,381,668	\$ -
Fund Balance - December 31	\$ 6,455,069	\$ 6,360,069	\$ 6,448,432	\$ 88,363

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,207,210	\$ 1,207,210	\$ 1,142,709	\$ (64,501)
Intergovernmental	5,911,908	5,911,908	4,702,018	(1,209,890)
Charges for services	55,750	55,750	40,268	(15,482)
Miscellaneous	-	-	54,346	54,346
Total Revenues	\$ 7,174,868	\$ 7,174,868	\$ 5,939,341	\$ (1,235,527)
Expenditures				
Current				
Highways and streets				
Administration	\$ 343,913	\$ 343,913	\$ 237,620	\$ 106,293
Maintenance	1,626,808	1,626,808	2,108,955	(482,147)
Construction	4,685,253	4,685,253	2,062,885	2,622,368
Equipment maintenance and shop	515,611	515,611	512,207	3,404
Total Expenditures	\$ 7,171,585	\$ 7,171,585	\$ 4,921,667	\$ 2,249,918
Net Change in Fund Balance	\$ 3,283	\$ 3,283	\$ 1,017,674	\$ 1,014,391
Fund Balance - January 1	1,346,514	1,346,514	1,346,514	-
Increase (decrease) in reserved for inventories	-	-	(3,696)	(3,696)
Fund Balance - December 31	\$ 1,349,797	\$ 1,349,797	\$ 2,360,492	\$ 1,010,695

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,037,847	\$ 3,037,847	\$ 3,055,731	\$ 17,884
Intergovernmental	5,576,287	5,576,287	5,391,086	(185,201)
Charges for services	728,300	728,300	583,192	(145,108)
Fines and forfeits	2,400	2,400	3,043	643
Gifts and contributions	22,800	22,800	28,885	6,085
Miscellaneous	8,100	8,100	10,025	1,925
Total Revenues	\$ 9,375,734	\$ 9,375,734	\$ 9,071,962	\$ (303,772)
Expenditures				
Current				
Public safety				
Victim crisis	\$ 359,862	\$ 359,862	\$ 278,627	\$ 81,235
Human services				
Income maintenance	\$ 2,146,520	\$ 2,146,520	\$ 2,042,784	\$ 103,736
Social services	6,355,168	6,355,168	6,051,940	303,228
Mental health	-	-	44,499	(44,499)
Victim services	-	-	8,378	(8,378)
Total human services	\$ 8,501,688	\$ 8,501,688	\$ 8,147,601	\$ 354,087
Health				
Mental health center	\$ 1,265,440	\$ 1,265,440	\$ 1,038,099	\$ 227,341
Total Expenditures	\$ 10,126,990	\$ 10,126,990	\$ 9,464,327	\$ 662,663
Net Change in Fund Balance	\$ (751,256)	\$ (751,256)	\$ (392,365)	\$ 358,891
Fund Balance - January 1	6,890,854	6,890,854	6,890,854	-
Fund Balance - December 31	\$ 6,139,598	\$ 6,139,598	\$ 6,498,489	\$ 358,891

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 439,030	\$ 439,030	\$ 540,806	\$ 101,776
Miscellaneous	-	-	25,980	25,980
Total Revenues	\$ 439,030	\$ 439,030	\$ 566,786	\$ 127,756
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 339,432	\$ 339,432	\$ 1,018,441	\$ (679,009)
Debt service				
Principal retirement	63,508	63,508	-	63,508
Interest	33,790	33,790	81,953	(48,163)
Total Expenditures	\$ 436,730	\$ 436,730	\$ 1,100,394	\$ (663,664)
Net Change in Fund Balance	\$ 2,300	\$ 2,300	\$ (533,608)	\$ (535,908)
Fund Balance - January 1	\$ (12,036)	\$ (12,036)	\$ (12,036)	\$ -
Prior period adjustment	(339,534)	(339,534)	(339,534)	-
Fund Balance - January 1, as restated	\$ (351,570)	\$ (351,570)	\$ (351,570)	\$ -
Fund Balance - December 31	\$ (349,270)	\$ (349,270)	\$ (885,178)	\$ (535,908)

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, all special revenue funds, and the Capital Equipment Debt Service Fund. The capital projects funds adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the Freeborn County Administrator so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations.

Encumbrance accounting is employed in governmental funds. Encumbrances (for example, purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the Ditch Special Revenue Fund by \$663,664. These over-expenditures were funded by a prior year bond issuance.

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SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

Debt service funds are used to account for the resources used to pay the County's long-term debt principal and interest.

The Capital Equipment Fund accounts for the accumulation of resources for, and the payment of principal, interest, and related costs of, general long-term debt for the acquisition of capital equipment.

The Tax Increment District (TIF) #1 Fund accounts for the accumulation of resources used for the retirement of the 1998 General Obligation Taxable Tax Increment Bonds and related interest costs.

The Courthouse Improvement Fund accounts for the accumulation of resources used for the retirement of the 2002 General Obligation Criminal Justice Bonds and related interest costs.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for financial resources used for acquisition or construction of major capital facilities.

The Equipment Notes Fund is used to account for the financial resources to be used for the acquisition of major capital equipment. This fund was closed at year end.

The Courthouse Improvement Fund is used to account for the financial resources to be used for the construction of major capital facilities. This fund was closed during the year.

PERMANENT FUND

Permanent funds report resources legally restricted to the extent that only earnings, and not principal, may be used to support the County's programs.

The U.S. Fish and Wildlife Fund accounts for money received because of land acquired and taken off the tax rolls. Interest is to be used to offset the taxes.

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>Capital Equipment</u>	<u>Debt Service TIF #1</u>	<u>Courthouse Improvement</u>	<u>Permanent U.S. Fish and Wildlife</u>	<u>Total (Exhibit 3)</u>
<u>Assets</u>					
Cash and pooled investments	\$ 359,585	\$ 80,371	\$ 527,712	\$ 87,314	\$ 1,054,982
Taxes receivable					
Prior	8,418	-	17,855	-	26,273
Accrued interest receivable	-	-	-	299	299
Total Assets	<u>\$ 368,003</u>	<u>\$ 80,371</u>	<u>\$ 545,567</u>	<u>\$ 87,613</u>	<u>\$ 1,081,554</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ 68,972	\$ -	\$ -	\$ 68,972
Deferred revenue - unavailable	4,309	-	9,132	-	13,441
Total Liabilities	<u>\$ 4,309</u>	<u>\$ 68,972</u>	<u>\$ 9,132</u>	<u>\$ -</u>	<u>\$ 82,413</u>
Fund Balances					
Reserved for					
Debt service	\$ 363,694	\$ 11,399	\$ 536,435	\$ -	\$ 911,528
Endowments	-	-	-	86,494	86,494
Unreserved					
Undesignated	-	-	-	1,119	1,119
Total Fund Balances	<u>\$ 363,694</u>	<u>\$ 11,399</u>	<u>\$ 536,435</u>	<u>\$ 87,613</u>	<u>\$ 999,141</u>
Total Liabilities and Fund Balances	<u>\$ 368,003</u>	<u>\$ 80,371</u>	<u>\$ 545,567</u>	<u>\$ 87,613</u>	<u>\$ 1,081,554</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Capital Equipment	Debt Service TIF #1
Revenues		
Taxes	\$ 304,434	\$ 68,972
Intergovernmental	44,401	-
Investment earnings	-	-
Miscellaneous	-	468,290
	\$ 348,835	\$ 537,262
Expenditures		
Current		
Conservation of natural resources	\$ -	\$ -
Economic development	-	68,972
Capital outlay	-	-
Debt service		
Principal retirement	295,000	330,000
Interest	26,976	136,190
Administrative (fiscal) charges	374	2,100
	\$ 322,350	\$ 537,262
Net Change in Fund Balance	\$ 26,485	\$ -
Fund Balance - January 1	337,209	11,399
Fund Balance - December 31	\$ 363,694	\$ 11,399

Statement 2

<u>Courthouse Improvement</u>	<u>Capital Projects</u>		<u>Permanent U.S. Fish and Wildlife</u>	<u>Total (Exhibit 5)</u>
	<u>Equipment Notes</u>	<u>Courthouse Improvement</u>		
\$ 647,541	\$ -	\$ -	\$ -	\$ 1,020,947
94,358	-	-	-	138,759
-	-	9,173	1,119	10,292
-	-	-	-	468,290
\$ 741,899	\$ -	\$ 9,173	\$ 1,119	\$ 1,638,288
\$ -	\$ -	\$ -	\$ 790	\$ 790
-	-	-	-	68,972
-	163,874	1,579,137	-	1,743,011
255,000	-	-	-	880,000
392,590	-	-	-	555,756
-	-	-	-	2,474
\$ 647,590	\$ 163,874	\$ 1,579,137	\$ 790	\$ 3,251,003
\$ 94,309	\$ (163,874)	\$ (1,569,964)	\$ 329	\$ (1,612,715)
442,126	163,874	1,569,964	87,284	2,611,856
\$ 536,435	\$ -	\$ -	\$ 87,613	\$ 999,141

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL EQUIPMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 304,793	\$ 304,793	\$ 304,434	\$ (359)
Intergovernmental	45,207	45,207	44,401	(806)
Total Revenues	\$ 350,000	\$ 350,000	\$ 348,835	\$ (1,165)
Expenditures				
Debt service				
Principal retirement	\$ 295,000	\$ 295,000	\$ 295,000	\$ -
Interest	27,000	27,000	26,976	24
Administrative (fiscal) charges	2,000	2,000	374	1,626
Total Expenditures	\$ 324,000	\$ 324,000	\$ 322,350	\$ 1,650
Net Change in Fund Balance	\$ 26,000	\$ 26,000	\$ 26,485	\$ 485
Fund Balance - January 1	337,209	337,209	337,209	-
Fund Balance - December 31	\$ 363,209	\$ 363,209	\$ 363,694	\$ 485

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

The Assurance Section accounts for fees collected in accordance with Minn. Stat. § 508.74.

The Current School Section accounts for collection of penalty and interest on property taxes and transmission tax. These taxes are distributed according to Minn. Stat. §§ 276.131 and 127A.34.

The Group Insurance Section accounts for payroll deductions for group health insurance.

The Mortgage Registry Tax Section accounts for the taxes received in registering a mortgage within the County.

The Post Placement Program Section accounts for money received by court services to help adolescents adapt to living in the community.

The Prepaid Tax Section accounts for payments received on taxes before the preparation of the tax statements or prior to January 1 of the year due.

The Refunding Section accounts for the refunding of property taxes.

The State Deed Tax Section accounts for the transfer of money to the state received from the sale of state deed stamps.

The Armory Debt Service Section accounts for funds received for repayment of armory debt.

The State Revenue Section accounts for the funds held pending remittance to the state.

The Stream Maintenance Agreement Section accounts for money received to help maintain area streams.

The Turtle Creek Watershed Section accounts for the special assessment payments received by the County for the watershed district.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

AGENCY FUNDS
(Continued)

The Collaborative Fund accounts for funds associated with the Family Collaborative Joint Powers Board.

The Court Administration - Clearing Fund accounts for the funds collected by the courts for other governments.

The Game and Fish Fund accounts for all money received from fines assessed for violations of game and fish laws.

The Tax Collection Fund accounts for the collection and distribution of property taxes and other amounts.

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

The Motor Vehicle Fund accounts for drivers' licenses and vehicle licenses.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 88,231	\$ 3,852,551	\$ 3,843,232	\$ 97,550
<u>Liabilities</u>				
Due to other governments	\$ 88,231	\$ 3,852,551	\$ 3,843,232	\$ 97,550
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 253,171	\$ 355,689	\$ 337,936	\$ 270,924
<u>Liabilities</u>				
Due to other governments	\$ 253,171	\$ 355,689	\$ 337,936	\$ 270,924
 <u>COURT ADMINISTRATION - CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,450	\$ 493,288	\$ 493,027	\$ 1,711
<u>Liabilities</u>				
Due to other governments	\$ 1,450	\$ 493,288	\$ 493,027	\$ 1,711

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 704	\$ 704	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 704	\$ 704	\$ -
 <u>TAX COLLECTION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 330,582	\$ 30,218,791	\$ 30,349,078	\$ 200,295
<u>Liabilities</u>				
Due to other governments	\$ 330,582	\$ 30,218,791	\$ 30,349,078	\$ 200,295
 <u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,055	\$ 666,804	\$ 664,844	\$ 6,015
<u>Liabilities</u>				
Accounts payable	\$ 4,055	\$ 666,804	\$ 664,844	\$ 6,015

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 116,049	\$ -	\$ 116,049
<u>Liabilities</u>				
Advance from governmental funds	\$ -	\$ 116,049	\$ -	\$ 116,049
 <u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,115,123	\$ 6,115,123	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,115,123	\$ 6,115,123	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 677,489	\$ 41,818,999	\$ 41,803,944	\$ 692,544
<u>Liabilities</u>				
Accounts payable	\$ 4,055	\$ 666,804	\$ 664,844	\$ 6,015
Due to other governments	673,434	41,036,146	41,139,100	570,480
Advance from governmental funds	-	116,049	-	116,049
Total Liabilities	\$ 677,489	\$ 41,818,999	\$ 41,803,944	\$ 692,544

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COMPONENT UNITS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 4

**STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2004**

	Shell Rock River Watershed District	Turtle Creek Watershed District	Total
<u>Assets</u>			
Cash and pooled investments	\$ 207,444	\$ 412,083	\$ 619,527
Taxes receivable			
Prior - net	6,664	20,866	27,530
Special assessments receivable			
Prior - net	-	4,558	4,558
Noncurrent - net	-	609,986	609,986
Prepaid items	-	1,652	1,652
	\$ 214,108	\$ 1,049,145	\$ 1,263,253
<u>Liabilities</u>			
Accounts payable	\$ 4,353	\$ 37,458	\$ 41,811
Due to primary government	50,000	2,073	52,073
Accrued interest payable	-	7,793	7,793
Advance from primary government	-	30,000	30,000
Long-term liabilities			
Due within one year	-	125,000	125,000
Due in more than one year	-	555,000	555,000
	\$ 54,353	\$ 757,324	\$ 811,677
<u>Net Assets</u>			
Unrestricted	\$ 159,755	\$ 291,821	\$ 451,576

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 5

**STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Shell Rock River Watershed District	Turtle Creek Watershed District	Total
<u>Expenses</u>			
Governmental activities			
General government	\$ 85,028	\$ 52,272	\$ 137,300
Conservation of natural resources			
Programs	20,424	-	20,424
Projects	10,420	161,376	171,796
Interest on long-term debt	-	21,848	21,848
Total Expenses	\$ 115,872	\$ 235,496	\$ 351,368
<u>Program Revenues</u>			
Charges for services	\$ -	\$ 4,454	\$ 4,454
Operating grants and contributions			
Special assessments	-	105,563	105,563
Total Program Revenues	\$ -	\$ 110,017	\$ 110,017
Net Program (Expenses) Revenues	\$ (115,872)	\$ (125,479)	\$ (241,351)
<u>General Revenues</u>			
Property taxes	\$ 264,801	\$ 31,996	\$ 296,797
State aid	42,318	11,239	53,557
Investment earnings	388	71	459
Total General Revenues	\$ 307,507	\$ 43,306	\$ 350,813
Increase (Decrease) in Net Assets	\$ 191,635	\$ (82,173)	\$ 109,462
Net Assets - January 1 (Note 7.B.3.)	(31,880)	373,994	342,114
Net Assets - December 31	\$ 159,755	\$ 291,821	\$ 451,576

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 6

**STATEMENT OF NET ASSETS AND
COMBINING GOVERNMENTAL FUNDS BALANCE SHEET
TURTLE CREEK WATERSHED DISTRICT COMPONENT UNIT
DECEMBER 31, 2004**

	<u>Governmental Funds</u>			<u>Adjustments</u>	<u>Statement of Net Assets</u>
	<u>General Administration</u>	<u>Operating</u>	<u>Total</u>		
<u>Assets</u>					
Cash and pooled investments	\$ 45,496	\$ 366,587	\$ 412,083	\$ -	\$ 412,083
Taxes receivable					
Prior	20,866	-	20,866	-	20,866
Special assessments					
Noncurrent	-	609,986	609,986	-	609,986
Delinquent	-	4,558	4,558	-	4,558
Prepaid items	1,652	-	1,652	-	1,652
Total Assets	\$ 68,014	\$ 981,131	\$ 1,049,145	\$ -	\$ 1,049,145
<u>Liabilities</u>					
Current liabilities					
Accounts payable	\$ -	\$ 37,458	37,458	\$ -	\$ 37,458
Due to primary government	-	2,073	2,073	-	2,073
Deferred revenue	-	614,544	614,544	(614,544)	-
Accrued interest payable	-	-	-	7,793	7,793
Advance from primary government	-	30,000	30,000	-	30,000
Long-term liabilities					
Advance from primary government	-	-	-	125,000	125,000
Due after one year	-	-	-	555,000	555,000
Total Liabilities	\$ -	\$ 684,075	\$ 684,075	\$ 73,249	\$ 757,324
<u>Fund Balance/Net Assets</u>					
Fund Balance					
Reserved for debt service	\$ -	\$ 297,056	\$ 297,056	\$ (297,056)	\$ -
Unreserved, undesignated	68,014	-	68,014	(68,014)	-
Total Fund Balance	\$ 68,014	\$ 297,056	\$ 365,070	\$ (365,070)	\$ -
Total Liabilities and Fund Balance	\$ 68,014	\$ 981,131	\$ 1,049,145		
Net Assets					
Unrestricted				\$ (291,821)	\$ 291,821

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 6
(Continued)

**STATEMENT OF NET ASSETS AND
COMBINING GOVERNMENTAL FUNDS BALANCE SHEET
TURTLE CREEK WATERSHED DISTRICT COMPONENT UNIT
DECEMBER 31, 2004**

**Reconciliation of Governmental Funds Balance Sheet to the Government-Wide
Statement of Net Assets - Governmental Activities**

Fund Balances - total governmental funds	\$ 365,070
Amounts reported for governmental activities in the statement of net assets are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds	614,544
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Special assessment debt	(680,000)
Interest payable	<u>(7,793)</u>
Net assets of governmental activities	<u>\$ 291,821</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 7

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TURTLE CREEK WATERSHED DISTRICT COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Funds			Adjustments	Statement of Activities
	General Administration	Operating	Total		
Revenues					
Taxes	\$ 31,996	\$ -	\$ 31,996	\$ -	\$ 31,996
Special assessments	-	257,667	257,667	(152,104)	105,563
Intergovernmental	11,239	-	11,239	-	11,239
Investment earnings	71	-	71	-	71
Miscellaneous	250	4,204	4,454	-	4,454
Total Revenues	\$ 43,556	\$ 261,871	\$ 305,427	\$ (152,104)	\$ 153,323
Expenditures/Expenses					
Current					
General government	\$ 52,272	\$ -	\$ 52,272	\$ -	\$ 52,272
Conservation of natural resources	-	161,376	161,376	-	161,376
Debt service					
Principal retirement	-	120,000	120,000	(120,000)	-
Interest	-	22,973	22,973	(1,125)	21,848
Total Expenditures/Expenses	\$ 52,272	\$ 304,349	\$ 356,621	\$ (121,125)	\$ 235,496
Excess of Revenues Over (Under) Expenditures/Expenses	\$ (8,716)	\$ (42,478)	\$ (51,194)	\$ (30,979)	\$ (82,173)
Fund Balance/Net Assets					
January 1, as previously reported (Note 7.B.3.)	\$ 76,730	\$ -	\$ 76,730		
Prior period adjustment	-	339,534	339,534		
January 1, as restated	\$ 76,730	\$ 339,534	\$ 416,264	(42,270)	373,994
December 31	\$ 68,014	\$ 297,056	\$ 365,070	\$ (73,249)	\$ 291,821

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 7
(Continued)

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TURTLE CREEK WATERSHED DISTRICT COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2004**

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Net Change in Fund Balance **\$ (51,194)**

In the funds, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment is the increase (decrease) in deferred revenue.

Deferred revenue - December 31 614,544
Deferred revenue - January 1 (766,648)

Repayment of debt principal is an expenditure in the funds, but reduces liabilities in the statement of activities.

Special assessment debt 120,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable 1,125

Change in net assets **\$ (82,173)**

OTHER SCHEDULE

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 6

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	4,539,552
Homestead credit		888,355
Market value credit		1,545,783
PERA rate reimbursement		44,126
Disparity reduction aid		50,192
Police aid		80,385
Enhanced 911		55,420
Temporary court aid		113,698
		113,698

Total Shared Revenue **\$ 7,317,511**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,980,253
		1,980,253

Payments

Local

Payments in lieu of taxes	\$	40,248
		40,248

Grants

State

Minnesota Department/Board of		
Corrections	\$	188,774
Public Safety		59,280
Health		142,082
Natural Resources		13,817
Trial Courts		9,380
Human Services		1,910,460
Office of Environmental Assistance		83,531
Peace Officers Board		7,520
Miscellaneous boards		69,950
		69,950

Total State **\$ 2,484,794**

Federal

Department of		
Agriculture	\$	110,646
Justice		105,984
Transportation		3,545
Health and Human Services		1,110,116
Homeland Security		73,776
		73,776

Total Federal **\$ 1,404,067**

Total State and Federal Grants **\$ 3,888,861**

Total Intergovernmental Revenue **\$ 13,226,873**

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FREEBORN COUNTY
ALBERT LEA, MINNESOTA

Schedule 7

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Freeborn County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Freeborn County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Freeborn County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Freeborn County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Temporary Assistance for Needy Families	CFDA #93.558
Social Services Block Grant Title XX	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Freeborn County was determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-2 Controls Over the Electronic Data Processing System

Several of the security settings on the AS400 are set below the recommended minimums for the AS400. The following is a list of the items noted:

- The QDSCJOBITV setting is 240 (four hours). The recommended value of how long the system waits before ending a disconnected job is 120 (two hours).
- Whether the system prevents a user from signing on at more than one workstation at the same time is determined by the QLMTDEVSSN setting. The recommended value is 1. The current value is set at 0, which means that one person can be signed on to more than one workstation at a time.
- The QPWDEXPITV setting is currently no max. The recommended time which the system users must change their passwords is 60 days.

In order to improve security over the data processing system and the data the system maintains, we recommend the County consider changing the AS400 security setting for overall security, log-in attempts, and passwords to the values recommended by the manual, *Tips and Tools for Securing Your AS400*.

Client's Response:

Security on our system is controlled by individual profile, not a blanket one. Passwords are needed for both our network and the AS400. We are currently looking at required frequency of change.

PREVIOUSLY REPORTED ITEM RESOLVED

Auditor/Treasurer's Cash Not Balanced (02-1)

The County Auditor/Treasurer has three sets of records for cash under his control. The three records did not agree to each other.

Resolution

The County Auditor/Treasurer had a reconciliation of the three amounts that agreed.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Ditch Deficit Balances

Under the modified accrual basis, as reported in the fund financial statements, 28 of the 93 active individual ditch systems had deficit fund balances totaling \$1,665,190 at December 31, 2004. Under the full accrual basis, which recognizes special assessment levies as revenue when levied, 15 ditches have fund balance deficits totaling \$913,301, with the largest at \$524,889. The Ditch Special Revenue Fund has long-term advances payable to the General Fund of \$1,767,331, an increase of \$506,279, or 40 percent, in 2004.

Minn. Stat. § 103E.735, subd. 1, provides that a ditch system balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend the County Board eliminate the individual ditch system deficits by levying assessments pursuant to Minn. Stat. § 103E.735.

Client's Response:

We are working on eliminating individual ditch deficits.

02-2 Financial Statement Preparation

Minn. Stat. § 375.17 states that the County Board is responsible for having annual financial statements prepared by the first part of March following the year-end. The County Board has oversight responsibility to ensure that the annual financial report is prepared in a timely manner. It should provide the necessary directives to County staff for the preparation and timely completion of the annual financial

report. The Board should provide sufficient guidance as to detail to be prepared, staff training in preparing the annual report, and staff time needed to prepare the annual report. The annual financial report consists of the Management's Discussion and Analysis (MD&A), entity-wide statements, fund level statements, notes to the financial statements, required supplementary information, detailed fund data, and other data as deemed necessary. The data should be prepared in accordance with generally accepted accounting principles. As part of the fund financial statements, summary schedules/worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report.

Recent changes to *Government Auditing Standards*, issued by the Comptroller General of the United States, limit the amount of nonaudit services that can be provided by the independent auditor in preparing financial statements of the entity. The primary affect of the change on the County is that County management needs to prepare the MD&A, financial statements, notes to the financial statements, and other schedule data. The independent auditor is responsible only for attesting to the fairness of the information presented in the financial statements to be included in the County's annual financial report. To facilitate timely reporting, the draft financial report/data should be completed in a timely manner and be available for audit on a date mutually agreed upon.

We recommend that the County Board provide the necessary directives to County staff to prepare the annual financial statements. In order to accomplish this, the County Board should ensure that County staff assigned to prepare this information have a good understanding of generally accepted accounting principles for government and the necessary time to prepare the draft financial report by the agreed dates.

Client's Response:

We will make every effort to comply with state statute.

PREVIOUSLY REPORTED ITEM RESOLVED

Contract Compliance (03-1)

The County retained only five percent retainage on three out-of-state contractors instead of eight percent, in violation of Minn. Stat. § 290.9705. The County also reduced retainage on another contract without County Board approval, in violation of Minn. Stat. § 162.04.

Resolution

No instances of noncompliance with Minn. Stat. §§ 162.04 or 290.9705 were noted in the current audit.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Disaster Recovery Plan

Freeborn County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;

- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We again recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

02-04

County Ditch 99

The County currently maintains a dummy ditch in the ditch fund, County Ditch 99 (CD 99). CD 99 is a holding account for some expenditures until the County allocates these costs to the appropriate operating ditches. This allocation is done once a year at year-end based on items paid. Because the allocation is only done once a year, during the year, the individual ditches affected by this allocation have understated expenditures. This annual allocation method allocates only cash paid items and does not allocate any payables posted to CD 99 until the end of the next year.

We recommend the County allocate these expenditures when paying them and eliminate CD 99.

Client's Response:

We will make every effort to allocate expenses to the appropriate ditch.

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Commissioners
Freeborn County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2004, and have issued our report thereon dated November 30, 2005. We did not audit the financial statements of the Shell Rock River Watershed District or the General Administration Fund of the Turtle Creek Watershed District, which represent 22.3 percent and 28.6 percent, respectively, of the assets and revenues of the aggregate discretely presented component units, which were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The General Administration Fund of the Turtle Creek Watershed District was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Freeborn County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 00-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeborn County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Freeborn County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 99-1 and 02-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 30, 2005



STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Freeborn County

Compliance

We have audited the compliance of Freeborn County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Freeborn County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Freeborn County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Freeborn County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Freeborn County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Freeborn County as of and for the year ended December 31, 2004, and have issued our report thereon dated November 30, 2005. We did not audit the financial statements of the Shell Rock River Watershed District or the General Administration Fund of the Turtle Creek Watershed District, which represent 22.3 percent and 28.6 percent, respectively, of the assets and revenues of the aggregate discretely presented component units, which were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Freeborn County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 30, 2005

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 8

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 100,628
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	16,874
Total U.S. Department of Agriculture		\$ 117,502
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 7,688
Crime Victim Assistance Grant	16.575	59,287
Byrne Formula Grant Program	16.579	6,945
Violence Against Women Formula Grant	16.588	32,064
Total U.S. Department of Justice		\$ 105,984
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Planning Grant	20.703	\$ 3,545
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Maternal and Child Federal Consolidation	93.110	\$ 8,500
Immunization Grants	93.268	200
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	46,400
Maternal and Child Health Services Block Grant	93.994	41,611
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds	93.596	266,044

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 8
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families	93.558	308,893
Foster Care Title IV-E	93.658	145,228
Social Services Block Grant Title XX	93.667	248,127
Independent Living Grant	93.674	10,378
Community Mental Health Block Grant	93.958	34,735
Total U.S. Department of Health and Human Services		\$ 1,110,116
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness	97.004	\$ 25,787
Crisis Counseling	97.032	31,719
Emergency Management Performance Grants	97.042	10,264
Emergency Operations Planning	97.051	6,006
Total U.S. Department of Homeland Security		\$ 73,776
Total Federal Awards		\$ 1,410,923

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Freeborn County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to revenue recognition principles of modified accrual, expenditures on this schedule do not equal federal revenues reported in the funds.
3. During 2004, Freeborn County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.